

# **EMPLOYMENT DEVELOPMENT DEPARTMENT**

Review Report

## **PAYROLL PROCESS REVIEW**

*July 1, 2010, through June 30, 2013*



**BETTY T. YEE**  
California State Controller

March 2017



**BETTY T. YEE**  
**California State Controller**

March 8, 2017

Patrick W. Henning Jr., Director  
Employment Development Department  
800 Capital Mall MIC 83  
Sacramento, CA 95814

Dear Mr. Henning:

The State Controller's Office has reviewed the Employment Development Department (EDD) payroll process for the period of July 1, 2010, through June 30, 2013. The EDD management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the EDD payroll process that leave the EDD at risk of additional improper payments if not mitigated. We found that the EDD has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, the EDD inappropriately granted nine employees keying access to the State's payroll system. This control deficiency leaves the EDD at risk of misuse, abuse, and unauthorized use of payroll data. The EDD also lacked sufficient controls over the processing of specific payroll-related transactions that would ensure that the EDD complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. The control deficiencies contributed to the unrecovered long-outstanding salary advances, improper holiday credit accruals, and questioned and improper payments, costing the State an estimated net total of \$48,407. Our review was performed on a limited number of transactions only; a more extensive review may determine that the amount of improper payments is higher than what we found.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/rg

cc: Greg Williams, Deputy Director, Administration Branch  
Employment Development Department  
Jill O'Connell, Personnel Officer  
Employment Development Department  
Holly Ramsey, Chief, Payroll and Personnel Management Section  
Employment Development Department  
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California Department of Human Resources

# Contents

## **Review Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>2</b>
<b>Objectives, Scope, and Methodology .....</b>	<b>3</b>
<b>Conclusion .....</b>	<b>4</b>
<b>Views of Responsible Officials.....</b>	<b>4</b>
<b>Restricted Use .....</b>	<b>5</b>
<b>Findings and Recommendations.....</b>	<b>6</b>
<b>Attachment—Employment Development Department’s Response to Draft Review Report</b>	

# Review Report

## Summary

The State Controller's Office (SCO) reviewed the Employment Development Department (EDD) payroll process for the period of July 1, 2010, through June 30, 2013. The EDD management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with various requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in internal control over the EDD payroll process that leave the EDD at risk of additional improper payments if not mitigated. We found that the EDD has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, the EDD inappropriately granted nine employees keying access to the State's payroll system. This control deficiency leaves the EDD at risk of misuse, abuse, and unauthorized use of payroll data. The EDD also lacked sufficient controls over the processing of specific payroll-related transactions that would ensure that the EDD complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. As summarized in the table on the following page, the control deficiencies contributed to the unrecovered long-outstanding salary advances, improper holiday credit accruals, and questioned and improper payments, costing the State an estimated net total of \$48,407. Our review was performed on a limited number of transactions only; a more extensive review may determine that the amount of improper payments is higher than what we found.

The following table summarizes our review results:

Finding Number	Issues	Selections Reviewed			Selections with Issues			
		Number of Selections Reviewed	Selection Unit	Dollar Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed <sup>1</sup>	Approximate Dollar Amount	Dollar Amount of Issues as a Percentage of Dollar Amount of Selections Reviewed <sup>1</sup>
1	Inappropriate keying access to the State's payroll system	88	Employee	\$ –	9	10%	\$ –	–
2	Inadequate controls over salary advances, resulting in failure to collect and maintain accurate records	10	Salary advance transaction	41,075	6	60%	22,067	54%
3	Inadequate controls over holiday credits, resulting in improper accruals	10	Holiday credit transaction	3,821	6	60%	2,060	54%
4	Inadequate controls over miscellaneous special payments, resulting in questioned and improper payments, net	24	Employee	1,145,948	7	29%	24,280	2%
Net total		132		\$ 1,190,844	28	21%	\$ 48,407	

<sup>1</sup> All percentages are rounded to the nearest full percentage point.

## Background

In 1979, the State of California adopted collective bargaining for state employees. This adoption of collective bargaining created a significant workload increase for the SCO's Personnel and Payroll Services Division (PPSD), as PPSPD was the State's centralized payroll processing center for all payroll related-transactions. As such, PPSPD decentralized the processing of payroll, allowing state agencies and departments to process their own payroll-related transactions. Periodic reviews of this now-decentralized payroll processing at state agencies and departments ceased due to budget constraints in the late 1980s.

In 2013, the California State Legislature reinstated these payroll reviews to gain assurance that state agencies and departments maintain an adequate internal control structure over the payroll function, provide proper oversight over decentralized payroll processing, and comply with various state laws and regulations regarding payroll processing and related transactions.

### Review Authority

Authority for this review is provided by the California Government Code (GC) section 12476, which states, "The Controller may audit the uniform state pay roll system, the State Pay Roll Revolving Fund, and related records of state agencies within the uniform state pay roll system, in such manner as the Controller may determine." In addition, GC section 12410 stipulates that "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

**Objectives,  
Scope, and  
Methodology**

Our review objectives were to determine whether:

- Payroll and payroll-related disbursements were accurate and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- The EDD had established adequate internal controls for payroll to meet the following control objectives:
  - Payroll and payroll-related transactions are properly approved and certified by authorized personnel;
  - Only valid and authorized payroll and payroll-related transactions are processed;
  - Payroll and payroll-related transactions are accurate and properly recorded;
  - Payroll systems, records, and files are adequately safeguarded; and
  - State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions.
- The EDD complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.
- The EDD maintained accurate records of leave balances.
- Salary advances were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

We reviewed the EDD payroll process and transactions for the period of July 1, 2010, through June 30, 2013.

To achieve our review objectives, we performed the following procedures:

- Reviewed state and EDD policies and procedures related to the payroll process to understand the practice of processing various payroll and payroll-related transactions.
- Interviewed EDD payroll personnel to understand the practice of processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to the payroll transaction processing, and obtain or confirm our understanding of existing internal control over the payroll process and systems.
- Selected transactions recorded in the State's payroll database based on risk factors and other criteria for review.
- Analyzed and tested transactions recorded in the State's payroll database and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, proper review and approval of transactions, adequacy of internal control over the payroll process and systems, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures. Errors found were not projected to the intended population.

- Reviewed salary advances to determine whether they were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

## Conclusion

Our limited review identified material weaknesses<sup>1</sup> in internal control over the EDD payroll process that leave EDD at risk of additional improper payments if not mitigated. The EDD has a combination of deficiencies in internal control over its payroll process such that there is a reasonable possibility that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. Specifically, the EDD inappropriately granted nine employees keying access to the State's payroll system. Of the nine employees, seven did not have their keying access immediately removed or modified subsequent to separation from state service, transfer to another agency, or change in classification; and two had keying access without the required written justification. This control deficiency leaves the EDD at risk of misuse, abuse, and unauthorized use of payroll data.

The EDD also lacked sufficient controls over the processing of specific payroll-related payments that would ensure that the EDD complies with collective bargaining agreements and state laws, and that only valid and authorized payments are processed. The control deficiencies contributed to unrecovered long-outstanding salary advances totaling \$18,910 and overstatement of salary advance balance by \$3,157, improper holiday credit accruals costing an estimated total \$2,060, and questioned and improper miscellaneous special payments at a net total of \$24,280. Our review was performed on a limited number of transactions only; a more extensive review may determine that the amount of improper payments is higher than what we found.

## Views of Responsible Officials

We issued a draft review report on January 3, 2017. Patrick W. Henning, Jr., Director, responded by letter dated January 26, 2017. Mr. Henning did not dispute the findings and indicated that the EDD has taken steps to correct the deficiencies noted in this report. We will follow up at the next audit to determine such correction actions were adequate and appropriate. We included Mr. Henning's response in its entirety as an attachment to this report.

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<sup>1</sup> An evaluation of an entity's payroll process may identify deficiencies in its internal control over such a process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in financial information; impairments of effectiveness or efficiency of operations; or noncompliance with provisions of laws, regulations, or contracts on a timely basis.

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information; impairment of effectiveness or efficiency of operations; or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.



## **Restricted Use**

This report is solely for the information and use of the EDD and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

March 8, 2017

# Findings and Recommendations

## **FINDING 1— Inappropriate keying access to the State’s payroll system**

The EDD lacked adequate controls to ensure that only appropriate staff had keying access to the State’s payroll system. Of the 88 employees we reviewed, nine (10%) had improper keying access to the system. If not mitigated, this control deficiency leaves the EDD at risk of misuse, abuse, and unauthorized use of payroll data.

The SCO maintains the State’s payroll information system. The system is decentralized, thereby allowing employees of state agencies to access the system. The SCO’s PPSD has established a Decentralization Security Program that all state agencies are required to follow in order to access the payroll systems. The program’s objectives are to secure and protect the confidentiality and integrity of the data against misuse, abuse, and unauthorized use.

The EDD had 88 employees with keying access to the State’s payroll system at some point between July 2010 and June 2013. Of the 88 employees, seven did not have their keying access immediately removed or modified subsequent to separation from state service, transfer to another agency, or change in classification; and two were analysts who had keying access but the EDD did not have the required written justification to allow the employees to have continued access as analysts.

The Decentralization Security Program manual states, in part:

The privilege to access the PPSD database poses a significant risk to the ability for SCO to function. Therefore privilege is restricted to persons with a demonstrated need for such access. Currently, . . . applications are restricted to Personnel Services Specialists (PSS), or Payroll Technician (PT) classifications because their need is by definition a function of their specific job duties, and any change in those duties requires a reevaluation of the need for access. If the employee’s duties change, such that the need for access no longer exists, the access privilege **MUST** be removed or deleted immediately by a request submitted by the department....A request for an individual in a classification other than in the PSS/PT series to access (the payroll system) requires a written justification from the Personnel/Payroll Officer. The justification must describe the individual’s specific job duties that require the need to each type of information...as well as the level of access to that application, in order to perform their Statutory and/or Constitutional duties.

### Recommendation

The EDD should update the keying access to the payroll system after employees change classifications or leave the EDD. The EDD’s designated security monitor should periodically review access to the system to determine that access complies with the Decentralized Security Program.

**FINDING 2—  
Inadequate  
controls over  
salary advances,  
resulting in failure  
to collect and  
maintain accurate  
records**

The EDD lacked adequate controls over salary advances to ensure that it complies with State law and policies. This control deficiency resulted in long-outstanding salary advances. Of the 10 employees we reviewed for salary advances, five had a total of \$18,910 that remained outstanding due to the EDD's failure to initiate collection efforts, and one had \$3,157 that was erroneously recorded as a salary advance. If not corrected, this control deficiency leaves the EDD at risk of further failures to collect salary advances and maintain accurate records.

GC section 19838 and State Administrative Manual (SAM) section 8776.7 allow the EDD to collect salary advances in a timely manner. At June 30, 2013, the EDD's accounting records indicated that a total of \$126,043 in salary advances to 157 employees has been outstanding for more than 60 days. The longest outstanding salary advance was more than four years. Generally, the prospect of collection diminishes as an account ages. When an agency is unable to collect after three years, the possibility of collection is remote.

We reviewed 10 selected employees with a total of \$41,075 in salary advances that have been outstanding for more than 60 days as of June 30, 2013. We found that the EDD incorrectly recorded as a salary advance the payment of \$3,157 made for amount owed to one employee; therefore, the outstanding salary advance was overstated by the same amount. Of the remaining nine employees, five had salary advances totaling \$18,910 that remained uncollected because the EDD failed to initiate collection efforts or did not do so in a timely manner, pursuant to State law and policies. The table below summarizes our review of the EDD's collection efforts, if any, on the five employees' salary advances:

Employee	Outstanding Salary Advance	Issues
A	\$ 4,678	The salary advance has been uncollected for more than <i>four years</i> after the issuance of the salary advance. No documentation to support collection efforts.
B	4,218	The employee received two additional salary advances while the first advance was still uncollected. Collection was initiated nearly <i>three years</i> after the issuance of the first salary advance.
C	3,901	Collection was initiated more than <i>two years</i> after the issuance of the salary advance.
D	3,059	Collection was initiated nearly <i>two years</i> after the issuance of the salary advance.
E	3,054	Collection was initiated more than <i>two years</i> after the issuance of the salary advance.
Total	<u>\$18,910</u>	

*Source:* The EDD's accounting and payroll records.

We also found that two of the five employees in the table above separated from the EDD. Salary advances made to employees who later separated could have been collected by withholding amounts from their final separation pay pursuant to GC section 19838 if proper verification had been performed that these advances had been paid. If the former employees left with unpaid salary advances, the EDD has the responsibility to pursue collections as described in SAM section 8776.6.

In one instance, the EDD failed to cancel the separated employee's payroll direct deposit at the time of separation. Consequently, the employee received the final pay without reduction of the unpaid salary advance. In another instance, the separated employee's salary advance remained unpaid because the EDD did not know until two years later that the separated employee's final pay had not been received.

The lack of adequate controls over salary advances reduces the likelihood of collection, increases the amount of resources expended on collection efforts, and negatively impacts cash flow.

#### Recommendation

The EDD should ensure that salary advances are recovered in a timely manner pursuant to GC section 19838 and SAM section 8776.7. If former employees leave owing unpaid salary advances, the EDD should pursue collections as described in SAM section 8776.6. If all reasonable collection procedures do not result in payment from former employees, the EDD may request discharge from accountability of uncollectable amounts. The accounting unit should review the outstanding salary advances in the accounting system with the human resources unit to identify those for discharge.

Pursuant to SAM section 8776, the EDD also should:

- Maintain documentation of its collection efforts and payment of salary advances, if any; and
- Ensure that salary advances are accurately recorded into the accounting system.

### **FINDING 3— Inadequate controls over holiday credits, resulting in improper accruals**

The EDD lacked adequate controls over the accrual of its employees' holiday credits. The EDD improperly granted a total of 89.5 holiday credit hours in six of 10 transactions (60%) we reviewed, costing approximately \$2,060. If not corrected, the control deficiency also leaves the EDD at risk of recording additional improper accruals of holiday credit.

Collective bargaining agreements and GC section 19853 specify the number of hours of holiday credit an employee would receive per qualifying holiday. In our review of 10 selected holiday credit transactions recorded in the State's leave accounting system, we found six involved accruals of holiday credit totaling 89.5 hours that did not comply with collective bargaining agreements and State law, as shown in the following table.

Issues	Number of Employees	Number of Holiday Credit Transactions	Number of Hours of Improper Holiday Credits	Estimated Net Cost to the State as of June 30, 2013
Holiday credit used entered as earned in the system	2	2	26.5	\$ 783
Holiday credit granted on pay periods that had no holidays	3	3	24.0	639
Holiday credit exceeded the limit set by collective bargaining agreement	1	1	39.0	638
Net total	6	6	89.5	\$2,060
As a percentage of selections reviewed*	60%	60%	58%	54%
Selections reviewed	10	10	153.0	\$3,821

Source: State's leave accounting system and the EDD's payroll records.

\*All percentages are rounded to the nearest full percentage point.

For instance, the EDD granted an employee 39 hours more than the employee was entitled to receive for holiday credit during the period. We found no indication that the holiday credit transaction was reviewed by an individual other than the payroll transaction unit staff responsible for keying this transaction into the system.

#### Recommendation

The EDD should conduct a review of the leave accounting system to ensure that the accrual of holiday credits complies with collective bargaining agreements and State law. The EDD should correct any improper holiday credits in the leave accounting system.

To prevent improper holiday credits in the leave accounting system from recurring, the EDD should:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately record leave transactions; and
- Provide training to payroll transactions unit staff involved in keying transactions into the leave accounting system to ensure that they understand the requirements under collective bargaining agreements and State law regarding holiday credits.

#### **FINDING 4— Inadequate controls over miscellaneous special payments, resulting in questioned and improper payments**

The EDD lacked adequate controls to ensure that the payroll transactions unit staff processes miscellaneous special payments in accordance with collective bargaining agreements and State laws. The EDD made \$24,546 in questioned payments to two employees for National Judicial College differential pay, and underpaid an employee by \$266 in separation lump-sum pay. Also, four of the six employees we reviewed for out-of-class compensation had assignments that were approved after the start date. If not corrected, the control deficiencies leave the EDD at risk of improper payments.

***National Judicial College differential pay***

The collective bargaining agreement between the State and Bargaining Unit 2 and California Department of Human Resources' *California State Civil Service Pay Scales*, section 14, Pay Differential 84 grant employees National Judicial College (NJC) differential pay if they meet the requirements to receive the pay. We reviewed the records of eight selected employees and found that two did not have the necessary documentation on file to support that they met the requirements to receive the pay. GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including a system of recordkeeping procedures over expenditures. Accordingly, we questioned a total of \$24,546 in NJC differential pay to two employees.

***Separation lump-sum pay***

Pursuant to collective bargaining agreements and GC section 19839, employees are entitled to receive cash for accrued eligible leave credits when separating from state employment. We reviewed the records of 10 selected employees and found that one was underpaid by approximately \$266. The underpayment resulted from miscalculation of the employee's accrued leave credits by the payroll transactions unit staff. We found no indication that the processing of the lump-sum payment was reviewed by an authorized individual.

***Out-of-class compensation***

We reviewed the records of six selected employees to determine whether the EDD granted the out-of-class assignments and compensation in accordance with collective bargaining agreements and state policies. Of the six employees, four had assignments that were approved after the start date. In one instance, the assignment for a managerial employee was approved three months after the start of the employee's out-of-class work. State policy requires approval prior to assigning out-of-class duties to the employee.

**Recommendation**

The EDD should establish and maintain internal controls to ensure that payroll-related payment transactions are processed in accordance with collective bargaining agreements and State laws and policies. These controls should ensure that the EDD:

- Maintains necessary documentation to support payments for differential pay;
- Calculates separation lump-sum payments correctly; and
- Obtains approval of out-of-class assignments prior to the start date.

**Attachment—  
Employment Development Department's  
Response to Draft Review Report**

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Edmund G. Brown Jr.  
Governor

January 26, 2017

Andrew Finlayson  
State Agency Audits Bureau  
State Controller's Office, Division of Audits  
PO Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

This letter is in response to the findings in the State Controller's Office, Division of Audits' draft report received on January 5, 2017 of the review of the Employment Development Department's (EDD) payroll process for the period of July 1, 2010 through June 30, 2013.

The EDD appreciates the documented results following the review. Enclosed is EDD's response to the draft report dated January 2017.

If you have any questions or need additional information, please contact Terri Jennings, Manager, Payroll Services Group at (916) 653-8571 or via email at [Terri.Jennings@edd.ca.gov](mailto:Terri.Jennings@edd.ca.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "P. Henning, Jr.", written over a horizontal line.

PATRICK W. HENNING, JR.  
Director

Enclosure

cc: Terri Jennings  
Jill O'Connell  
Holly Ramsey  
Greg Riggs  
Audrey Traina  
Greg Williams





**Response to the State Controller's Office Draft Review Report  
of the Employment Development Department's Payroll Process**

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The Employment Development Department (EDD) provides the following response to each of the findings and concerns noted in the State Controller's Office (SCO) draft report dated January 2017.

**SCO FINDING 1 – Inappropriate keying access to the State's payroll system**

SCO Recommendation:

The EDD should update the keying access to the payroll system after employees change classifications or leave the EDD. The EDD's designated security monitor should periodically review access to the system to determine that access complies with the Decentralized Security Program.

EDD Response:

As of March 26, 2015, the designated security monitor reviewed all employees with keying access, deleting those whose function did not support access. Access of all users is audited on a quarterly basis. A process is in place for notification, within five working days for employees temporarily or permanently separated or whose function/classification changes. This is done by use of an internal update form and communication email. Upon the SCO's receipt of the notification, access is immediately suspended for temporary separations and deleted for permanent separations. Where those with a change in function/classification are granted access, the records include the justification for the business need.

**SCO FINDING 2 – Inadequate controls over salary advances, resulting in failure to collect and maintain accurate records**

SCO Recommendation:

The EDD should ensure that salary advances are recovered in a timely manner pursuant to Government Code (GC) Section 19838 and State Administrative Manual (SAM) Section 8776.7. If former employees leave owing unpaid salary advances, the EDD should pursue collections as described in SAM Section 8776.6. If all reasonable collection procedures do not result in payment from former employees, the EDD may request discharge from accountability of uncollectable amounts. The accounting unit should review the outstanding salary advances in the accounting system with the human resources unit to identify those for discharge.

Pursuant to SAM Section 8776, the EDD should also:

- Maintain documentation of its collection efforts and payment of salary advances, if any; and
- Ensure salary advances are accurately recorded into the accounting system.

EDD Response:

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EDD Response

As of January 5, 2015, the EDD management closely reviews the documentation associated with salary advances and monitors the collection action thereafter, utilizing a monthly report generated by the EDD accounting office. All phases of the collection action are documented and the documents are kept with the applicable file as well as provided to the Fiscal Programs Division for updating the automated report database. Where collection efforts are unsuccessful, EDD requests discharge of accountability. In partnership with the accounting office, when notified of the separation of an employee, the payroll staff identify balances owed and ensure the amounts are deducted from the employee's final warrant, and/or if it requires discharge of accountability.

**SCO FINDING 3 – Inadequate controls over holiday credits, resulting in improper accruals**

SCO Recommendation:

The EDD should conduct a review of the leave accounting system to ensure that the accrual of holiday credits complies with collective bargaining agreements and State law. The EDD should correct any improper holiday credits in the leave accounting system.

To prevent improper holiday credits in the leave accounting system from recurring, the EDD should:

- Provide adequate oversight to ensure that payroll transactions unit staff accurately record leave transactions; and
- Provide training to payroll transactions unit staff involved in keying transactions into the leave accounting system to ensure that they understand the requirements under collective bargaining agreements and State law regarding holiday credits.

EDD Response:

As part of a state-wide review of the California Leave Accounting System (CLAS) in 2013, a review of Holiday Credit was conducted with corrections made in 2014 and 2015 to records of employees inappropriately receiving holiday credit.

Personnel Specialists receive formal training from the State Controller's Office on keying transactions into CLAS. Additionally, in May 2016, the EDD instituted in-house training on CLAS to expand the staff's knowledge.

The Personnel Supervisors view all error messages generated by the CLAS and periodically review the accuracy of leave transactions.

**SCO FINDING 4 – Inadequate controls over miscellaneous special payments, resulting in questioned and improper payments**

SCO Recommendation:

The EDD should establish and maintain internal controls to ensure that payroll-related payment transactions are processed in accordance with collective bargaining agreements and State laws and policies. These controls should ensure that the EDD:

- Maintains necessary documentation to support payments for differential pay;
- Calculates separation lump-sum payments correctly; and
- Obtains approval of out-of-class assignments prior to the start date.

EDD Response:

The process has been modified to ensure no differential pay is issued or initiated without the receipt and approval of supporting documentation.

Beginning September 25, 2015, the Personnel Specialists are required to view an online training module; complete scheduled in-house training, and use a calculation worksheet to aid in their ability to correctly auto-calculate lump sum payments. The accuracy of the lump sum calculations are reviewed by the Personnel Supervisors.

To prevent receiving approvals after the start date in the future, by March 31, 2017, EDD will provide training to Personnel Liaisons and managers which emphasizes the importance of submitting timely requests for out-of-class assignments prior to the start date. In addition, policies and procedures for out-of-class assignments are being revised to include a separate form for requesting extensions. This will also eliminate the appearance of approvals being granted after the start date for those where the new package is to extend the end date. We anticipate issuing the revised policies and procedures in the Fall of 2017.

**State Controller's Office  
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